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Somerville Industries Limited

1967 ANNUAL REPORT



Somerville Industries Limited

Directors

J. G. Church
F. C. Lennox
I. A. MacDonald
G. C. Metcalf
F. J. Orr
W. Garfield Weston

Officers

G. C. Metcalf – Chairman of the Board
F. C. Lennox – President and General Manager
J. G. Church – Executive Vice-President
I. A. MacDonald – Vice-President, Packaging
A. B. Van der Ende – Secretary-Treasurer

Management Committees

Head Office:

F. C. Lennox – Chairman
J. G. Church – Executive Vice-President
I. A. MacDonald – Vice-President, Packaging
A. B. Van der Ende – Secretary-Treasurer
T. E. White – Manager, Industrial and Public Relations

Packaging:

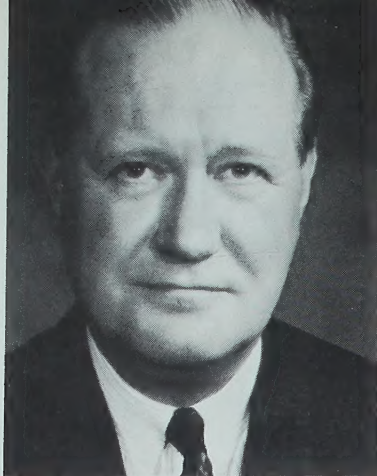
I. A. MacDonald – Chairman
G. J. Deignan – General Manager, Consolith Division
E. J. Dewhurst – General Manager, Canadian Folding Cartons Division
K. W. Keene – General Manager, London Division and Winnipeg

Special Products:

J. G. Church – Chairman
R. W. Bastien – General Manager, Display Division
J. W. Feightner – General Manager, Plastics Division
B. L. Morin – General Manager, Games and Strathmore Division
F. J. Orr – General Manager, Panel Division and Somerville Automotive Trim Limited

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver



To Somerville Shareholders:

Appreciation

In most Company Annual Reports, the last paragraph is one of appreciation to those people who have contributed to the progress of the Company over the year. We would like to begin this report by expressing our thanks to all of the Somerville Industries staff, our customers, and suppliers, for their co-operation and support, without which the Company's long pattern of growth and success would not be possible. We are all in business together, and it is our objective that it may continue to be mutually satisfactory and beneficial for many years to come.

Summary

During 1967, a significant change in the reporting of profitability was instituted, by accepting the recommendations of the Canadian Institute of Chartered Accountants to calculate income taxes on the deferred tax basis. Cumulative deferred income taxes have been set up as a future liability by recording a charge to Retained Earnings. All of the figures on the financial statements in this report, covering a 15-year period, have been restated, in order to make them comparable.

For the tenth consecutive year, all previous sales and operating profit records were surpassed in 1967. Net sales reached a new high of \$41,365,139—up \$1,652,408, or 4.2% over the preceding year.

Net Earnings for the year, after all charges, amounted to \$1,765,850—an increase of \$272,982 or 18.3% over 1966.

Operations

PACKAGING AND RELATED PRODUCTS

During 1967, the industry again felt the even greater impact of competition on our packaging sales volume. Our growth in this area amounted to 5.8% for the year.

Substantial gains were made in many packaging areas by intensified sales efforts and strong emphasis on customer service.

Internal cost controls and revised production techniques, aimed at realistic profit improvements, resulted in a rate of profit increase in excess of the sales gain for the year. Most of this was the direct result of our continuing program of maintaining our production equipment in top operating condition and making replacements whenever demanded by changes in technology.

SPECIAL PRODUCTS

AUTOMOTIVE PANEL DIVISION

Although the total sales volume of the automotive component parts operation increased over 1966, profits did not. Competition from the United States and the results of the Canada/U.S. tariff agreement, as far as our Company is concerned, have plagued our efforts to produce satisfactory profits.

GAMES AND STRATHMORE DIVISIONS

The combined sales volume of games, crackers, and paper novelties increased by 30% over 1966, together with a substantial improvement in profits.

Experience indicated that the promotion of these lines by television was most beneficial, and this program is being expanded in 1968. Over twenty new products have been added for 1968 and, with more efficient equipment, we are looking for continued improvement in sales and profits.

DISPLAY DIVISION

1967 was a disappointing year for the Display Division, mainly as a result of sales personnel changes. These problems were substantially resolved late in the year and, with further new appointments, continuing gains have already become evident. During the first quarter of 1968, we are pleased to report that this Division has shown substantial improvement, and is currently in a profitable position.

PLASTICS DIVISION

Although a marginal sales decline was experienced in this Division, deep inroads in the custom-molded plastic field were made, resulting in a substantial improvement in profitability. We continued our program of improving and modernizing our equipment and methods, and are now one of the most modern plastics converters in Canada.

Encouraging and profitable results are being obtained in the current year, and the prospects are bright indeed for the future.

Properties and Equipment

Capital expenditures, during 1967, amounted to \$1,151,690. Almost all of this was spent on equipment for the various Divisions and subsidiaries, in order to obtain the greatest profitability. No major expenditures on new plants or additions were made during the year. It is expected that 1968 capital expenditures will be about 30% in excess of 1967.

Working Capital

On December 31, 1967, a \$2,000,000 Common Share dividend was declared, reducing working capital to \$4,816,759. Current Assets at the end of 1967 were \$13,852,976, as against Current Liabilities of \$9,036,217—a ratio of 1.5 to 1.

Earnings

Operating Profits for 1967 were \$4,548,072—up \$274,115, or 6.4%, over 1966.

Net Earnings for the year, after all charges, were \$1,765,850, using the deferred income tax method of accounting. This is an increase of \$272,982, or 18.3%, over 1966 results.

General

It is with deep regret that we record, on June 7, 1967, the death of our Executive Vice-President, Mr. Alan G. Shillington. Mr. Shillington worked with Somerville for 48 years, and his knowledge of the Company and industry affairs was invaluable. From a personal and business standpoint, he will be sorely missed.

During the year, several major changes in organization were made.

Effective July 1st, Mr. J. G. Church was appointed Executive Vice-President of the Company. Mr. I. A. MacDonald was appointed Vice-President of all Packaging Divisions, and a Director of the Company. Mr. G. J. Deignan succeeded Mr. MacDonald as General Manager of the Consolith Division in Montreal. On September 18th, Mr. R. W. Bastien was appointed General Manager of the Display Division. On November 1st, Mr. B. L. Morin became General Manager of the Games and Strathmore Divisions.

We are confident that these changes and promotions will make for an efficient and profitable operation.

During 1967, your Company has continued to make progress in all respects. With our program of product diversification, improvement in equipment and efficiency, we look forward to the future with confidence. In reporting to the Shareholders, I can assure you of the continued best effort of everyone involved in the affairs of Somerville Industries Limited.



President and General Manager



Consolidated Statements of Earnings and Retained Earnings for the year ended December 31, 1967

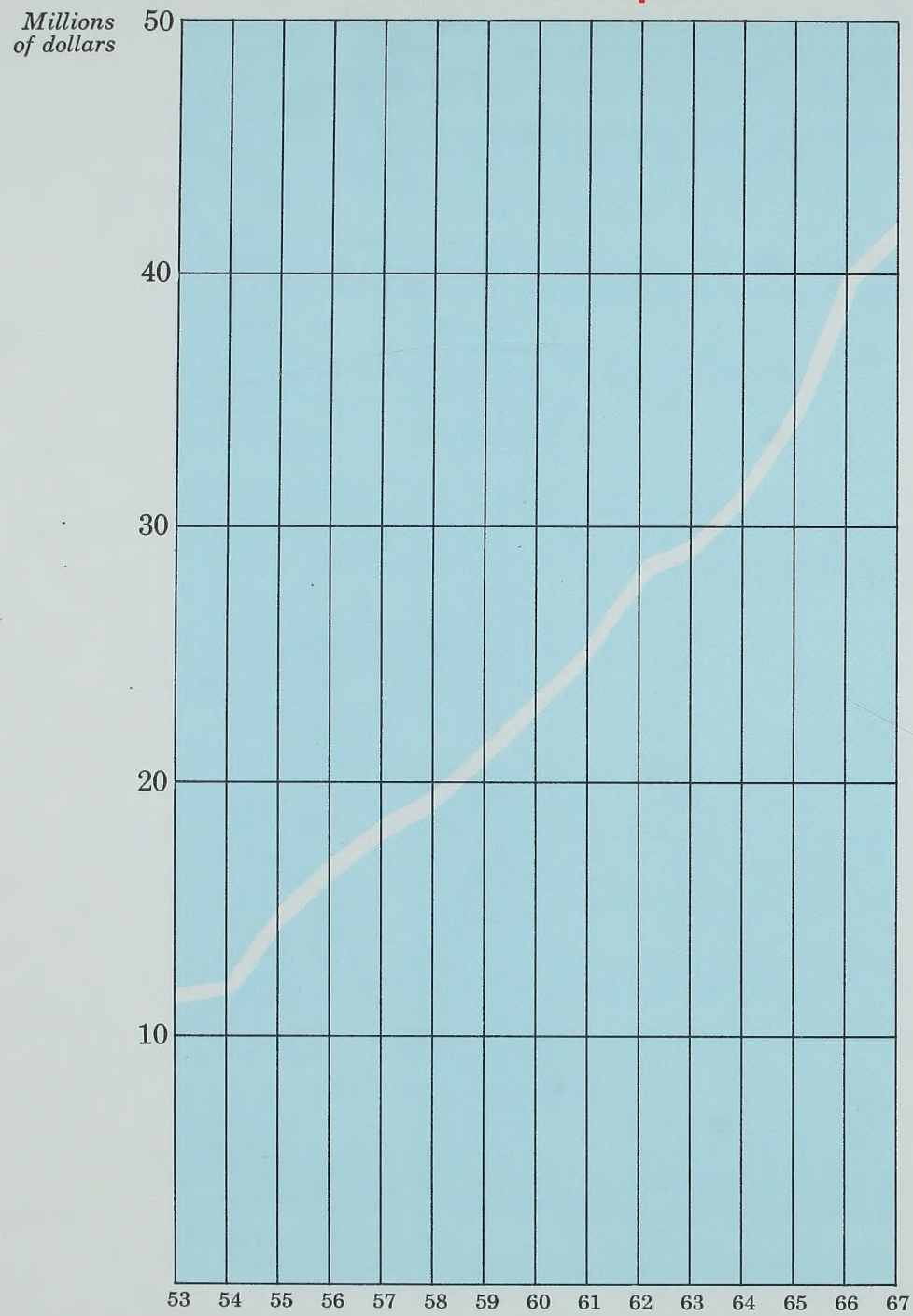
	<u>1967</u>	<u>1966</u>
NET SALES	\$41,365,139	\$39,712,731
Costs, excluding expenses shown below.....	<u>36,817,067</u>	<u>35,438,774</u>
OPERATING PROFITS	\$ 4,548,072	\$ 4,273,957
Deduct:		
Moving and starting up expenses of new plants.....	\$ 14,947	\$ 97,302
Interest on long term debt.....	176,946	191,602
Provision for depreciation.....	<u>968,329</u>	<u>979,185</u>
	\$ 1,160,222	\$ 1,268,089
Net profits before income taxes.....	\$ 3,387,850	\$ 3,005,868
Provision for income taxes (note 5).....	<u>1,622,000</u>	<u>1,513,000</u>
NET EARNINGS FOR THE YEAR	\$ 1,765,850	\$ 1,492,868
(1967 remuneration of Directors \$166,000)		
Retained earnings at beginning of year, as previously reported.....		\$ 9,966,928
Adjustment re deferred income taxes to December 31, 1965 (note 5).....		<u>1,976,000</u>
ADJUSTED RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 7,599,408	\$ 7,990,928
Add:		
Net Earnings for the year.....	1,765,850	1,492,868
Profit realized from the sale of real estate.....	<u>—</u>	<u>221,753</u>
	\$ 9,365,258	\$ 9,705,549
Deduct:		
Dividends on preferred shares.....	\$ 105,784	\$ 106,141
Dividends on common shares.....	<u>2,000,000</u>	<u>2,000,000</u>
	\$ 2,105,784	\$ 2,106,141
RETAINED EARNINGS AT END OF YEAR	\$ 7,259,474	\$ 7,599,408



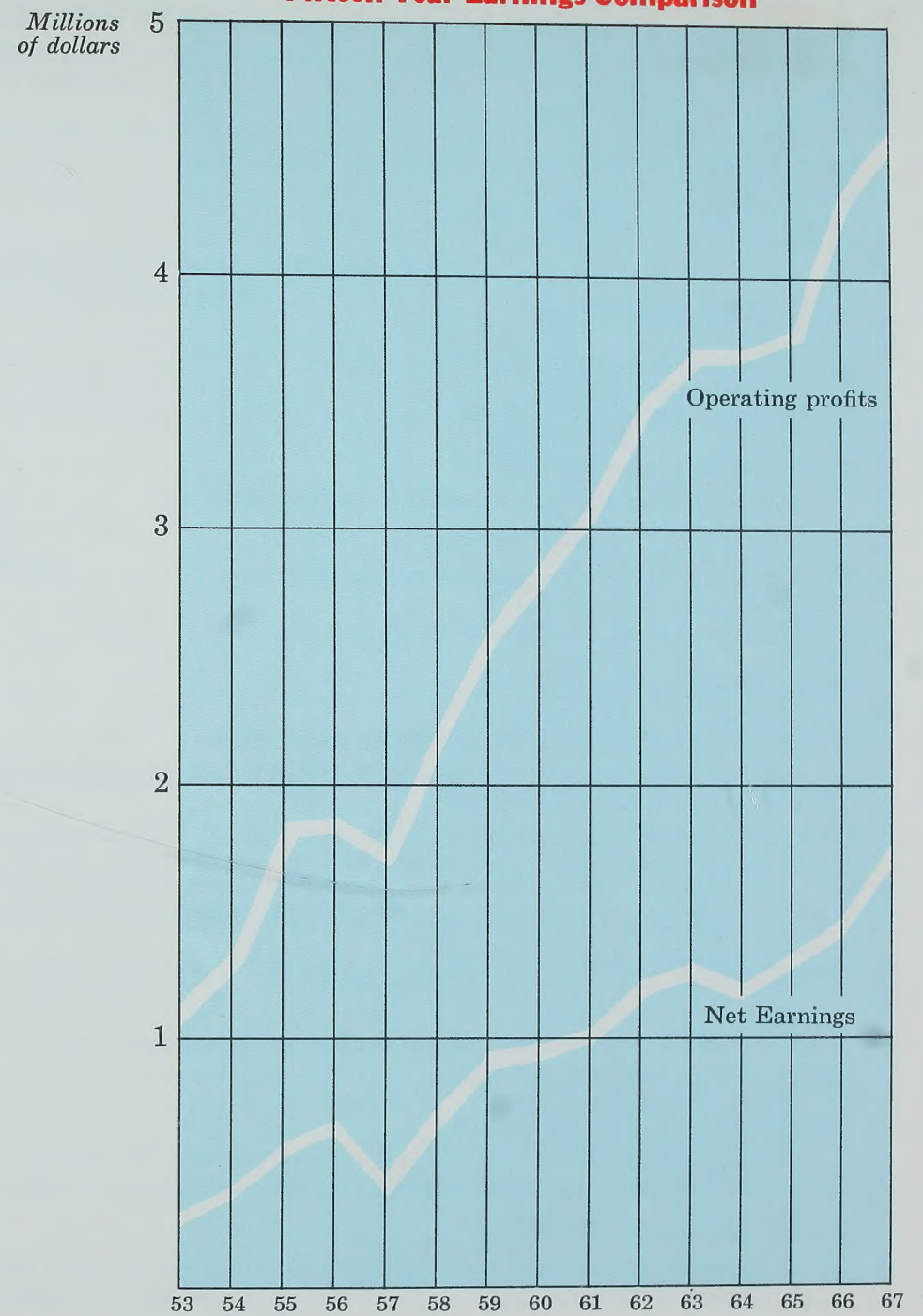
Fifteen Year Comparison

		NET SALES	OPERATING PROFITS	NET EARNINGS (NOTE 5)
1953	Acquired the Consolith Division in Montreal and the Strathmore Division in Strathroy. Built a 60,000 sq. ft. plant in Scarborough.....	\$12,135,131	\$1,162,297	\$ 261,026
1954	Moved Display Division to Toronto from London.....	12,559,423	1,292,586	382,818
1955	Established Canadian Folding Cartons Division in Toronto. Extended the Scarborough plant by 18,000 sq. ft.....	15,177,334	1,826,246	559,491
1956	Built a 22,000 sq. ft. plant in Winnipeg to house part of London's expanded Pure Pak operations serving Western Canada.....	16,965,724	1,852,600	623,971
1957	Moved the Consolith Division to a new 135,000 sq. ft. plant in Ville St. Laurent (Montreal). Expanded Canadian Folding Cartons Division to double previous plant area.....	18,354,640	1,748,486	462,827
1958	Enlarged Display Division's operations in Toronto.....	19,513,044	2,201,503	747,312
1959	Built a 15,000 sq. ft. extension to the Consolith plant to accommodate Pure Pak operations serving the province of Quebec and Eastern Canada.....	21,540,484	2,615,631	912,018
1960	Purchased Paulite Plastics Co. Ltd.—our first venture into a broad range of diversified plastics production.....	23,322,163	2,858,450	937,335
1961	Purchased Impac Containers Ltd., a company producing a full line of plastic coffee cups.....	25,193,720	3,092,851	1,026,095
1962	Moved the Display Division into new, enlarged quarters (24,000 sq. ft.) in Don Mills (Toronto).....	28,308,774	3,487,433	1,240,018
1963	Consolidated all plastics production into a new 66,000 sq. ft. plant in Bramalea, just outside Toronto. Extended the Canadian Folding Cartons Division plant by another 60,000 sq. ft.....	29,005,827	3,715,588	1,275,899
1964	Commenced an extensive program to convert Pure Pak from wax to plastic coated cartons.....	31,279,679	3,716,039	1,225,705
1965	Established Somerville Automotive Trim, Limited in Windsor.....	34,471,425	3,745,584	1,319,994
1966	Expanded the Automotive Panel operations in Windsor, by moving into a 90,000 sq. ft. building. Extended the Consolith division by a further 81,000 sq. ft.....	39,712,731	4,273,957	1,492,868
1967	Expansion of the Company's production facilities continued in all divisions, resulting in the highest sales and profits in our 81 year history.....	41,365,139	4,548,072	1,765,850

Fifteen Year Sales Comparison



Fifteen Year Earnings Comparison





Somerville Industries Limited AND ITS WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1967

	<u>1967</u>	<u>1966</u>
CURRENT ASSETS		
Cash.....	\$ 616,876	\$ 950,583
Accounts Receivable (note 1).....	4,622,132	4,492,552
Inventories (note 2).....	8,441,531	8,115,901
Prepaid Expenses.....	172,437	148,847
	<u>\$13,852,976</u>	<u>\$13,707,883</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities (note 1).....	\$ 3,339,484	\$ 2,994,611
Income taxes payable.....	716,099	554,416
Other taxes payable.....	173,379	190,872
Bond sinking fund payments due in 1968.....	280,809	271,779
Dividends Payable.....	2,026,446	2,026,516
Advances from Parent Company.....	2,500,000	2,250,000
	<u>\$ 9,036,217</u>	<u>\$ 8,288,194</u>
WORKING CAPITAL	<u>\$ 4,816,759</u>	<u>\$ 5,419,689</u>
SINKING FUND RE PREFERRED SHARES—		
government and industrial bonds at market values (cost \$120,015).....	\$ 102,188	\$ 102,816
DEFERRED RECEIVABLES	<u>\$ 130,758</u>	<u>\$ 87,089</u>
FIXED ASSETS (note 3)	<u>\$20,147,386</u>	<u>\$19,148,538</u>
Less: Accumulated depreciation.....	8,216,596	7,327,486
	<u>\$11,930,790</u>	<u>\$11,821,052</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>\$16,980,495</u>	<u>\$17,430,646</u>
LONG TERM DEBT (note 4)	<u>\$ 2,657,562</u>	<u>\$ 2,938,371</u>
DEFERRED INCOME TAXES (note 5)	<u>2,559,000</u>	<u>2,358,000</u>
	<u>\$ 5,216,562</u>	<u>\$ 5,296,371</u>
NET ASSETS (being Shareholders' equity)	<u>\$11,763,933</u>	<u>\$12,134,275</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 6).....	\$ 2,245,300	\$ 2,250,300
Retained Earnings (note 7).....	7,259,474	7,599,408
Excess of appraised value of fixed assets over cost, less sundry charges.....	2,259,159	2,284,567
TOTAL SHAREHOLDERS' EQUITY	<u>\$11,763,933</u>	<u>\$12,134,275</u>

Signed on behalf of the Board:

F. C. LENNOX, Director.

J. G. CHURCH, Director.

NOTES TO CONSOLIDATED STATEMENTS

1. Accounts Receivable and Accounts Payable:

Included in accounts receivable is an amount of \$255,971 owing from, and in accounts payable an amount of \$279,034 owing to affiliated and associated companies.

2. Inventories:

The value of inventories is shown at the lower of cost and net realizable value.

	<u>1967</u>	<u>1966</u>
Raw Material, Goods in Process and Supplies	\$ 4,210,969	\$ 4,445,863
Finished Goods	4,230,562	3,670,038
	<u>\$ 8,441,531</u>	<u>\$ 8,115,901</u>

3. Fixed Assets:

The value of buildings and equipment is shown at cost or based on appraisals made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

	<u>1967</u>	<u>1966</u>
Land, buildings and leasehold improvements	\$ 5,805,619	\$ 5,791,566
Machinery and equipment	14,341,767	13,356,972
	<u>\$20,147,386</u>	<u>\$19,148,538</u>

4. Long Term Debt:

First Mortgage Bonds: Authorized \$10,000,000

	<u>1967</u>	<u>1966</u>
Series A—5¼ % sinking fund, due October 15, 1973, Outstanding	\$ 1,239,000	\$ 1,411,000
Less: 1968 sinking fund provision and cash in the hands of the Trustee	181,438	172,629

	<u>\$ 1,057,562</u>	<u>\$ 1,238,371</u>
Series B—6% sinking fund, due June 15, 1977, Outstanding	\$ 1,700,000	\$ 1,800,000
Less: 1968 sinking fund provision	100,000	100,000

	<u>\$ 1,600,000</u>	<u>\$ 1,700,000</u>
Total Long Term Debt	<u>\$ 2,657,562</u>	<u>\$ 2,938,371</u>

5. Income Taxes:

In 1967, the basis of accounting for income taxes has been changed to reflect deferred income taxes on the financial statements, rather than by way of footnote, as in previous years.

Deferred income taxes of \$201,000 deducted in the statement of earnings for 1967 (\$382,000 in 1966) represents income taxes which may be payable in future years when capital cost allowances available for tax purposes are less than depreciation reflected in the accounts. Cumulative deferred income taxes to December 31, 1965 of \$1,976,000 have been recorded by a transfer from Retained Earnings. The figures on all financial statements pertaining to 1966 and previous years have been restated to be comparable.

6. Capital Stock:

Authorized: 100,000 Cumulative, redeemable Preferred shares, par value \$50 each, issuable in series, less 100 redeemed during the year and 2,120 previously redeemed. 500,000 Common shares, without par value.

	<u>1967</u>	<u>1966</u>
Issued: 37,780 Cumulative \$2.80 sinking fund Preferred shares, 1953 series, redeemable at \$51 per share	\$ 1,889,000	\$ 1,894,000
356,300 Common shares	356,300	356,300
	<u>\$ 2,245,300</u>	<u>\$ 2,250,300</u>

7. Retained Earnings:

Retained Earnings includes an amount of \$111,000 set aside as capital surplus in connection with the redemption of Preferred shares as required by section 61 of the Canada Corporations Act.

8. Long Term leases:

Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases, aggregate rentals amount to approximately \$2,663,000. Maximum annual rentals payable thereunder for the years 1968 to 1973 are approximately \$149,500.



Consolidated Statement of Source and Application of Funds
for the year ended December 31, 1967

SOURCE OF FUNDS:

	<u>1967</u>	<u>1966</u>
Net earnings for the year.....	\$ 1,765,850	\$ 1,492,868
Provision for depreciation.....	968,329	979,185
Deferred income taxes for the year.....	201,000	382,000
Proceeds from the sale of fixed assets.....	48,215	391,303
	<u>\$ 2,983,394</u>	<u>\$ 3,245,356</u>

APPLICATION OF FUNDS:

Additions to fixed assets.....	\$ 1,151,690	\$ 1,761,913
Dividends on preferred shares.....	105,784	106,141
Dividends on common shares.....	2,000,000	2,000,000
Redemption of preferred shares.....	5,000	5,500
Bond sinking fund payments due in 1968.....	280,809	271,779
Sundry items (net).....	43,041	52,065
	<u>\$ 3,586,324</u>	<u>\$ 4,197,398</u>

Decrease in working capital for the year.....	\$ 602,930	\$ 952,042
Working capital at the beginning of the year.....	5,419,689	6,371,731
WORKING CAPITAL AT END OF YEAR.....	<u><u>\$ 4,816,759</u></u>	<u><u>\$ 5,419,689</u></u>

AUDITORS' REPORT

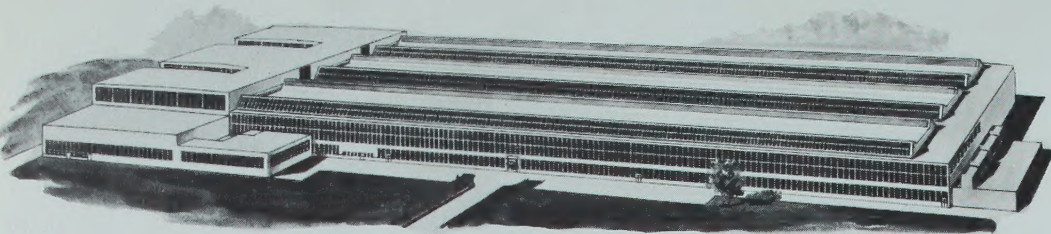
To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1967 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for income taxes, as set out in note 5, with which we concur.

London, Canada
March 20, 1968

THORNE, GUNN, HELLIWELL AND CHRISTENSON
Chartered Accountants



HEAD OFFICE AND LONDON DIVISION
P.O. Box 5760, TERMINAL "A", LONDON, ONT.
 Folding cartons, set-up boxes, bags, games, puzzles.



WINNIPEG PLANT
1885 Sargent Avenue, Winnipeg 3, Man.
 Pure-Pak containers.



CONSOLITH DIVISION
865 Hodge Street, Montreal 9, Que.
 Folding cartons, labels, lithography.



CANADIAN FOLDING CARTONS DIVISION
188 Cartwright Avenue, Toronto 19, Ont.
 Folding cartons.



PANEL DIVISION—SCARBOROUGH
20 Bertrand Avenue, Scarborough, Ont.
 Automotive interior trim, fabricated hardboard and plywood, compression molded plastics.



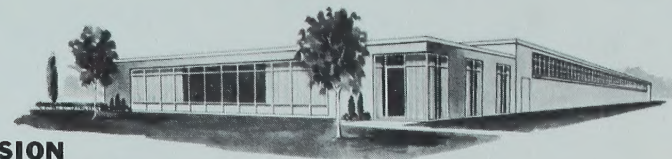
PANEL DIVISION—WINDSOR
2744 Edna Street, Windsor, Ont.
 Automotive interior trim.



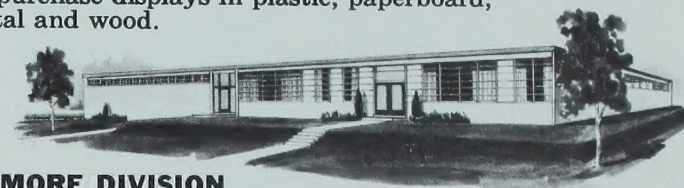
SOMERVILLE AUTOMOTIVE TRIM LIMITED
2744 Edna Street,
Windsor, Ont.



Somerville Directory



DISPLAY DIVISION
11 Lesmill Road, Don Mills, Ont.
 Point of purchase displays in plastic, paperboard, wire, metal and wood.



STRATHMORE DIVISION
Strathroy, Ont.
 Party crackers, paper novelties and decorative centre pieces.



SOMERVILLE PLASTICS DIVISION
376 Orenda Road, Bramalea, Ont.
 Plastic coffee cups, toys and novelties, custom injection molding, blow molding and vacuum forming.

Sales Offices situated at all Manufacturing divisions and at the following locations:

HAMILTON: 477 Main Street East
 GUELPH: 21 Oak Street (P.O. Box 331)
 MONCTON: P.O. Box 1106
 PETERBOROUGH: 166 Brock Street (P.O. Box 325)

Representatives:

NEWFOUNDLAND: N. C. Hutton, Ltd., St. John's
 QUEBEC: Henri Gauvin, Quebec City
 Marcel Messely, Quebec City
 ONTARIO: Mid-West Paper Limited, Port Arthur
 Snelling Paper Sales Limited, Ottawa
 PRAIRIE PROVINCES: Crown Zellerbach Canada Ltd., Winnipeg
 Mid-West Paper Limited, Winnipeg
 Paper Agencies Limited, Winnipeg
 COAST-TO-COAST:
 Games Sales—Frank E. Lucas and Company, Toronto
 Party Cracker Sales—Harry Adelman Agencies, Toronto



Somerville Industries Limited